

## Chapter 2 Definition of Business Requirements

### Chapter 2, Section 1

#### About this chapter

##### 2.1.1 The purpose of this chapter

#### Developing the Performance Work Statement (PWS) and Quality Assurance Plan (QAP)

The purpose of this chapter is to outline the process for agencies to develop the key documents required for a competitive contracting solicitation (see WAC 236-51-305). They are the Performance Work Statement and the Quality Assurance Plan.

**Performance Work Statement (PWS)** - Definition from WAC 236-51-010 (20) “a statement of the technical, functional and performance characteristics or requirements of the work to be performed. The statement identifies essential services to be performed, determines performance factors, including the location of the work, the units of work, the quantity of work units, and the quality and timeliness of the work units.” It is the results and outcomes being sought.

**Quality Assurance Plan (QAP)** - Definition from WAC 236-51-010 (22) “a plan by which an agency will monitor a contract awardee’s performance to ensure that the standards of the performance work statement are met within the costs, quality of service, delivery, and other standards of the contract.”

Both documents may require multiple revisions as input is received by both stakeholders and potential service providers. A provision for change control and review of materials is therefore recommended along with adherence to the requirements of WAC 236-51-310 and WAC 236-51-320 covering changes to solicitation documents.

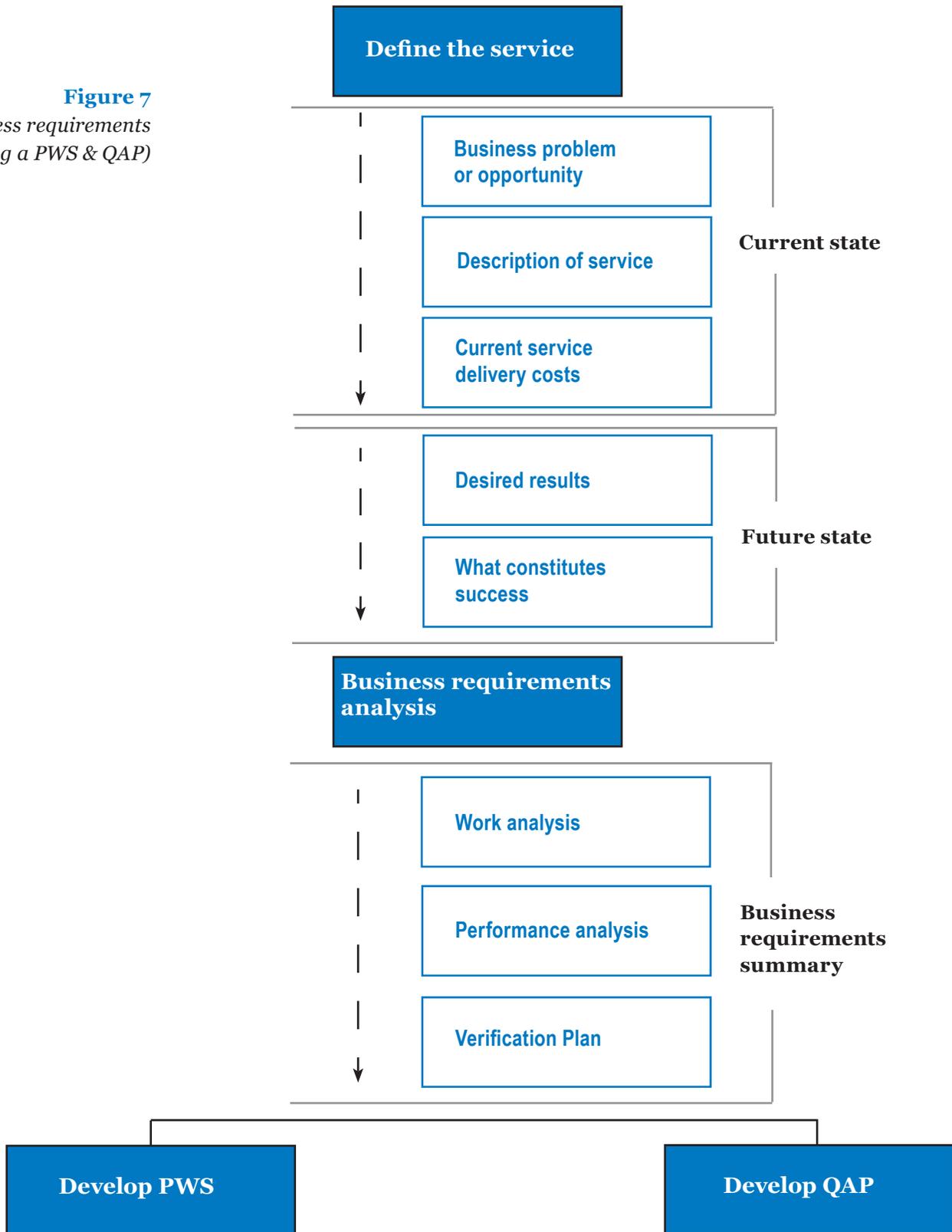
This chapter will not include techniques, methods, policy, or direction on how to develop and sustain continuous improvement and service delivery quality programs. Most agencies have established quality and performance management programs in response to Executive Order 97-03. Therefore, this chapter will focus on the development of business requirements in preparation for a competitive contracting solicitation.

##### 2.1.2 How is this chapter organized?

***This chapter is organized as follows (refer to Figure 7):***

- Introducing the concept of value
- Defining the service (where it is today, *current state*, and where it needs to go, *future state*)
- Performing a business requirements analysis
- Creating the PWS and the QAP

**Figure 7**  
*Business requirements*  
*(developing a PWS & QAP)*



### 2.1.3 Overview of value

#### Where in the competitive contracting process does value play a role?

The concept of value can be an important tool for different parties in the competitive contracting process:

- Agency decision-makers can use the concept to judge current services, employees' service alternatives, or formal bids presented by service providers.
- Employees and service providers can use it to define and describe the proposals or bids they give to agencies.
- Agencies can use it to assess the outcomes of competitive contracting, and to communicate with stakeholders about the utility and cost of services the agency provides or purchases.

As such, the concept of value is useful at different stages of the competitive contracting environment:

- In the development of business requirements
- The awarding of a contract
- Post award, as services are being performed

#### Success can be defined in terms of value

One way to define success in the competitive contracting process is the extent to which:

1. The solicitation results in bids that can be judged on their likely value to the agency, clients, and taxpayers
2. The selected bid represents the best likely value to the agency, clients, and taxpayers.

#### The value concept

*What is meant by the term value?* In simple terms, “value” means the results achieved for the money paid. Value does not solely refer to a set of performance results. Nor does it solely mean the lowest cost for a service without regard to the standards by which the work is done. Rather, value is a combination of the work results for the cost paid. It can be shown as a ratio in the following way:

$$\text{Value} = \frac{\text{Results}}{\text{Cost}}$$

*How is value increased?* One way is to decrease costs while keeping the level (or quality) of results the same. Another way is to increase the level of results while keeping costs the same assuming, of course, that the increase in results provides benefit to the customer.

## **The voice of the customer**

Any discussion about value cannot happen without input from the customer. Regardless of the level of results provided relative to cost, if the outcome is of no value to the customer the service will fail. Agencies may wish to refer to outside sources for information on methods of assessing the customer's concept of value, including Concurrent and Value Engineering techniques, surveys, questionnaires, and focus groups.

### *Chapter 2, Section 2*

## **Definition of the service**

### **2.2.1 Statement of business problem or opportunity (current state)**

#### **A decision to solicit bids should be clearly linked to the agency's mission and performance objectives**

The premise for the agency to consider competitive contracting is born from either a business problem or opportunity that has not been adequately addressed internally by other means such as re-engineering, continuous improvement, or modification of the service.

A business problem or opportunity statement should not be focused on activities to be performed or resources required. Instead, it should state the outcomes and results desired (*see 5.1.5 for an example statement*).

#### **Agency strategic plan and WA State's Priorities of Government (POG)**

In the case of Washington State, the strategic and biennium budget planning and review cycle are natural starting points. As part of budget preparation activities, the Office of Financial Management (OFM) requires agencies to develop a strategic plan along with descriptions of the key activities each agency performs and how each activity supports the statewide priorities. Regular review of the agency's performance relative to its strategic plan and budget are on-going operational activities that provide additional chances to identify business problems or opportunities for consideration for competitive contracting.

#### **OFM's Strategic Planning and Performance Measures Guidelines:**

<http://www.ofm.wa.gov/budget/instructions/operating.htm>

#### **The Priorities of Government team reports set out a strategic direction for the state:**

<http://www.ofm.wa.gov/budget/pog/default.htm>

#### **Potentially displaced employee notification**

Another reason an agency must clearly state the business problem or opportunity, is that it is a recommended element of an employee notification (see 5.1.5). WAC 236-51-110 specifies the minimum requirements of an employee notification.

#### **Clearly identify the scope**

Once the boundaries of a service under consideration for competition are defined, the agency needs to evaluate whether state employee positions within the service's scope

are exempt from competitive contracting. RCW 41.06.070 lists exemptions to competitive contracting. If any of these positions exist within the service being evaluated, then one of two things must happen. Either;

1. The agency restructures the service to exclude from it those positions that are exempt
2. If the exempt position(s) represent a significant part of the service delivery mechanism, exclude it from further consideration as a candidate for competitive contracting

### **2.2.2 Description of a service to be studied (current state)**

#### **Service under consideration for competitive contracting**

There are a number of key pieces of information that should be gathered in order to adequately describe the service to be considered for competitive contracting. A description of the existing service being provided is useful not only for defining the boundaries of what is to be considered, but also to identify the basic focus of the performance analysis and development of the PWS and QAP. Section 2.2.4 contains elements of a service definition for hypothetical vehicle maintenance service section.

### **2.2.3 Calculating current service delivery costs (current state)**

#### **Identification of current service delivery costs**

This chapter does not go into much detail on determining the service's current delivery costs (see Chapter 3). However, here is why it is important to know the current cost of service delivery:

- RCW 41.06.142 requires that the agency, as a condition to award, has to demonstrate either a cost savings or efficiency improvement as a result of making an award in a competitive contracting solicitation
- To be able to evaluate bidders' competing cost proposals
- To determine cost incentives as described in section 2.3.3

### **2.2.4 Elements of the service definition (current state)**

#### **Mission statement**

The agency is required to have a mission statement in its strategic plan. The mission statement describes the agency's reason for existence in general terms that capture its unique purpose and functions. It typically describes the organization, what it does, why it does it, and for whom. How the service being considered for competitive contracting supports the agency's mission statement should be articulated in the service definition.

#### **Support activities**

Organizations or services that currently interact with or support the service under consideration should be identified and any potential impacts determined and evaluated. Risk assessment begins at this stage and continues throughout the competitive contracting process (see Chapter 4).

It is important to note that not all impacts may be negative. Competitive contracting may actually present other opportunities not originally considered by including upstream, downstream, and supporting services and organizations into the analysis. Value chain analysis and flow charts are very useful tools at this stage.

If it becomes apparent that the boundaries of the service to be competitively contracted should be expanded, the agency should consider expanding the scope of the study.

## **Customers**

It is important when defining the service to identify all the customers of that service. If 'value' is determined by the customer of the service, then the agency must identify the recipients of the service in order to assess the value they place on the service. An agency may determine that there are several customer or stakeholder groups who place 'value' in the service, and it may be necessary to assess their needs separately.

### ***Additional information that should be considered:***

- Market share
- Competitors
- Customer engagement strategy
- Market opportunities

## **Results and services provided**

The identification of the results that the service provides is important as a baseline input for use in developing the Performance Work Statement (PWS) which includes creating performance indicators and standards. It is also important at this point to identify the volume for each task result, or outcome provided by the candidate service.

## **Customer perception of quality and cost**

Obtaining feedback from customers and other stakeholders on the value, quality, and cost of a service may require a customer survey or focus group. The information gained from such surveys or focus groups can be useful in comparing performance with "best in class" services in other similar organizations (also known as benchmarking). There are various approaches that can be used but that will not be covered in this manual.

## **FTEs, funding or revenue streams and summary budget data**

Identifying the Full Time Equivalent (FTEs) and summary budget data associated with the service allows the relative magnitude of the service to be presented in order to determine the benefit potential of competitive contracting. A service with a small number of FTEs or a small budget may not yield the potential efficiency or cost savings for realizing a return on investment.

Funding or revenue sources are important to understand so that the agency can determine the variability, volatility, and risks associated with the service's income stream.

## **The following example is for illustration only**

The example below illustrates the definition of a service as described in this subsection.

**Note: The hypothetical example is for illustration only and does not represent any current or future plans, intent, or policy.**



## Agency Letterhead

(Hypothetical example for illustration only)

### **Service Definition for Washington State Department of XYZ Vehicle Operations - Vehicle Maintenance Service Section**

The vehicle maintenance service section maintains the daily rental vehicles, some of which are permanently assigned; others of which are owned by other state agencies within the county.

#### **(Indicators of Performance from Mission Statement)**

The vehicle maintenance service section maintains the daily rental vehicles, some of which are permanently assigned; others of which are owned by other state agencies within the county.

**Statewide Result Area:** Improve the ability of state government to achieve its results efficiently and effectively.

**Category:** Provide support services to government agencies.

The primary indicators of performance:

- **Availability of vehicles (versus vehicle downtime)** - The standard of performance being used for vehicle availability is 82.5 percent (17.5 percent vehicle downtime). Vehicle downtime is defined as the time during which a vehicle is out of service because it is undergoing maintenance or repair, or awaiting parts.
- **Customer satisfaction** - The standard of performance being used for customer satisfaction is measured against industry standards.
- **Vehicle condition** - Vehicle condition is maintained according to fair wear and tear standards used in private industry.
- **Cost effectiveness** - Supply short-term vehicles to agencies at least 30 percent below contracted rental vehicle rates.

#### **(Service to be Competed/ Results and services provided)**

The work proposed under this competition involves providing managerial, administrative, supervisory, and direct and indirect (overhead) personnel to accomplish all vehicle maintenance and repair services for the Washington State Department of XYZ's Vehicle Operations. These services are provided for 1,350 vehicles assigned to agencies on a permanent basis for staff use. The vehicles are maintained, serviced, repaired, and replaced by the vehicle maintenance section on a fee for service basis. The facility is located in Olympia, WA.

(Hypothetical example for illustration only)

The Vehicle Maintenance Service Section in Olympia provides repair services for state owned vehicles to include, but not limited to:

- Tune ups
- Lube oil and filter changes
- Brake service
- Suspension and drive train component replacement
- Engine diagnostic analysis
- Tire mounting and balance
- Safety inspections
- Emissions testing
- Electrical repairs

**(Other Activities that Support the Service)**

In establishing the definition to be utilized in this analysis, the study team has reviewed the interaction between the Vehicle Maintenance Service Section and the following support services:

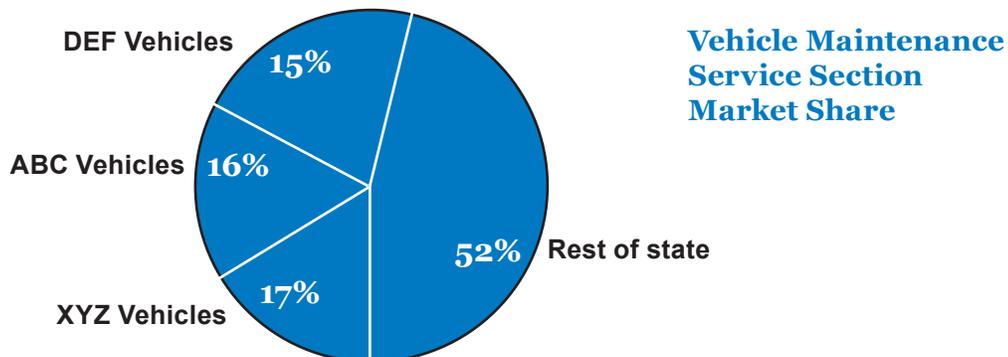
- Procurement
- Accounting & Finance
- Payroll

While these services all provide some degree of support to the Vehicle Maintenance Service Section, the level of effort was determined initially to be minimal and all of the support services were excluded from the boundaries of the competition.

**(Customers)**

The Vehicle Maintenance Service Section supports vehicle operations and a limited number of vehicles assigned to agencies all within the county. ABC and DEF Agency Fleets are larger and are maintained by their own respective maintenance staffs. The balance of state owned vehicles are maintained via state contracts with private sector providers. The Vehicle Maintenance Service Section’s share of the state’s fleet maintenance is 17%.

(Hypothetical example for illustration only)



**(Customer Quality/Cost Perception)**

A customer satisfaction survey was conducted three months ago to determine overall levels of satisfaction and identify customer concerns. Overall customer satisfaction was rated as average (Average of 2.5 out of a scale of 1-5). Vehicle downtime and vehicle availability were rated as below average (1.8 out of a scale of 1-5). Actual vehicle availability average over a 12 month rolling period was 60.3%. Specific customer concerns focused on vehicle availability on Monday mornings and maintenance problems with older vehicles, especially sedans.

Half of the 6 departments responding to the survey were of the opinion that the Vehicle Maintenance Service Section charges for routine maintenance, as well as for some repairs, appeared to be higher than would be incurred through private/dealer repair facilities.

**(FTEs and Summary Budget Data)**

Five full-time positions and one part-time staff position are currently authorized for the Vehicle Maintenance Service Section. All positions are currently filled.

The Vehicle Maintenance Service Section is staffed by three mechanics, an automotive parts specialist, and a maintenance coordinator.

The current budget for this service is \$572K in labor costs and \$246K in parts/material costs. The cost of vehicle purchases is not included as it is budgeted separately in the capital budget.

**Source:** Agency Activity Inventory by Agency; Appropriation Period: XXXX Activity Version: XXXX Sup w/ Allocation & Activities

FY 2004				FY 2005			
TOTAL	GFS	OTHER	FTE's	TOTAL	GFS	OTHER	FTE's
\$817,000	\$0	\$817,000	5.1	\$816,000	\$0	\$816,00	5.1

**2.2.5 Defining desired results (future state)**

**Define desired result**

Once a service has been defined, like the example provided in the previous pages, any desired outcomes should be identified. These desired outcomes quantify the results that address the business problem or opportunity statement.

- Is the **outcome** greater productivity and efficiency in vehicle preventative maintenance?
- Is the **outcome** shorter turnaround time on corrective maintenance?
- Is the **outcome** enhanced parts purchasing capability?

Or, as in the case of the vehicle maintenance service example in subsection 2.2.4;

- Is the **outcome** vehicle availability of at least 82.5%?

One way to determine the desired outcomes is through facilitated work sessions with program staff, customers and stakeholders. By removing the process from a paper review or examination of the status quo, greater innovation and insight are possible. Once aired, those thoughts need to be captured in the PWS. Industry benchmarks and best practices may also help in sharpening the focus on what the performance objectives for the candidate service should be.

### Statement of objectives

Sometimes it is beneficial to develop a clear and succinct statement of objectives to assist in developing the desired results of a competitive contracting solicitation. For example: As a result of competitively contracting its vehicle maintenance, Department of XYZ expects to improve its vehicle operations in several ways:

- Improve vehicle availability by eliminating maintenance backlog caused by limited capacity
- Enhance cost effectiveness and competition by utilizing multiple sources
- Enhance environmental protection by contracting with providers who utilize the latest in waste management facilities and technologies
- Enhance cost effectiveness by prolonging the life of the state's motor fleet by utilizing the latest fleet maintenance technologies and methods
- Enhance cost effectiveness by implementing best practices across the entire state fleet of 8000 vehicles

#### 2.2.6 Determining what constitutes success (future state)

##### A clear vision of success is necessary

Just as important as a clear vision of desired results is a clear vision of what will constitute success. There are two distinct questions that are posed in determining what constitutes success:

- Where does the agency want to go?
- How does it want to get there?

It is important to establish a clear target for success early on. This target will serve to focus the efforts of the team managing the competition, the service providers competing for the contract, and the agency throughout the contract performance period. Expanding on the hypothetical vehicle maintenance example once again a success target might be:

- As a result of an award, Department of XYZ expects vehicle availability to increase from a baseline 12 month rolling average of 60.3% to 85% within 1 year

Whatever the target, it is important that it be stated in such a manner that it can be easily measured. Qualitative targets are very difficult to measure objectively unless the associated standards of performance can be clearly defined.

##### Determine the baseline for measuring success

To measure success it is necessary to have a baseline against which future performance can be measured. This means the current performance level of the service must be determined as part of the defining the service. If baseline conditions are not defined, it will be difficult - if not impossible - to measure success in the future. The vehicle maintenance example uses the baseline percentage of 60.3%. Recall that this was the baseline performance stated in the Service Definition (see 2.2.2).

##### Necessity for a positive business relationship between the agency and the service provider

A positive relationship between the agency and service provider is essential in fulfilling a performance-based requirement. An agency's relationship with a service provider

should be one that promotes a strong and positive business alliance to achieve mutually beneficial goals (e.g. timely delivery and acceptance of high-quality services) through the use of efficient business practices and open communication.

### *Chapter 2, Section 3*

## **Business requirements analysis**

In order to maximize performance in competitive contracting, as well as encourage innovation and competition, performance-based strategies for the acquisition of services should be used whenever possible.

A key element in a performance-based acquisition strategy is the development of business requirements that define the desired outcomes and the performance objectives of an acquisition. These requirements are typically developed through a business requirements analysis encompassing the following elements:

- Conduct a work analysis
- Conduct a performance analysis
- Prepare a verification plan
- Prepare the business requirements summary

Each element of these elements will be discussed in detail later in this section. Before we do that though let's first go over the definition, key elements, objective, and benefits of a performance-based services acquisition.

### **2.3.1 Performance-based services acquisition**

#### **Definition and key elements of a performance-based acquisition**

A performance-based acquisition describes and communicates measurable outcomes rather than a direct performance process (i.e. it instructs service providers on what needs to be done not how it needs to be done). Service requirements are defined in terms of performance objectives, and a service provider is allowed the latitude to determine how to meet those objectives.

To be considered performance-based, an acquisition should, at a minimum, include the following elements:

- A Performance Work Statement (PWS) that describes the requirement in terms of measurable outcomes rather than by means of prescriptive methods
- Measurable performance standards to determine whether performance outcomes have been met, and to define what is considered as acceptable performance
- Incentives that address how to manage performance that does not meet the contractual obligation and to motivate exceeding the expectations
- A Quality Assurance Plan (QAP) that describes how a service provider's performance will be measured and assessed against performance standards

#### **Objectives of a performance-based acquisition**

Since the primary focus is on the end result, a service provider can adjust operating procedures through the life of the contract as necessary without the burden of contract modifica-

tions, so long as the delivered outcome remains in accordance with the contract. If incentives are used, this can further motivate a service provider to deliver the best performance possible.

Competition and innovation can be maximized by encouraging innovation through the use of performance requirements that maximize opportunities for competitive alternatives. Additionally, allowing for maximum innovation may attract a greater number of bidders to a solicitation thus improving competition. It will also provide any potential service provider with greater latitude in submitting competitive proposals.

### **Benefits of a performance-based acquisition**

A performance-based services acquisition has many benefits. They include:

- Focus on intended results, not on process (the what and not the how) allows flexibility in solutions to optimize service delivery (both efficiency and costs)
- Better value for the state and enhanced performance for customers
- Less performance risk for both the state and provider
- Enhanced service provider buy-in and shared interests
- Use of shared incentives to permit innovation in service delivery
- Quality control requirements are reduced and more meaningful

## **2.3.2 Conduct a work analysis**

### **Purpose of the work analysis**

The purpose of the work analysis is to define what future state the service needs to achieve in terms of results and outcomes.

Work analysis involves breaking the service down into meaningful task levels and linking those tasks to form a logical flow of activities. The key steps in the work analysis process include:

- Clearly identifying/defining the overall task, results, or outcomes required
- Breaking down a service or task into its parts and subparts
- Clearly identifying inputs needed to get the job done
- Identifying the relationship between the parts

The purpose of the work analysis is to create a Work Breakdown Structure (WBS) for the service being analyzed. The WBS provides a thoughtful and comprehensive approach to creating a clear and enforceable PWS. The WBS also provides a solid foundation for developing a QAP that tells the agency if a service is being furnished as specified, and assists in evaluating the use of incentives in a contract.

Typically a one-sentence requirement is written for each task or sub-task defined in the WBS. Grouping similar and related tasks and identifying their relationships provides a common sense approach to communicating with service providers via a PWS.

During the work analysis a decision also needs to be made as to which tasks will actually be competed and which will remain in-house. Failure to identify the primary tasks, results, or outcomes required in a solicitation will result in incomplete or ambiguous contractual requirements that may be difficult to enforce or lead to misinterpretation and inadequate performance.

**Key elements of the work analysis process**

The core of the work analysis process involves translating the preliminary service definition from Section 2 into specific tasks that must be performed. The focus should be on the work input and output aspects of determining the requirements, and all outputs should be described in results-oriented terms. **If mistakes are made at this point in the process, the remainder of the acquisition process may be compromised.**

A common approach to conducting a work analysis is to use a flow chart or swim lane diagram (so named because the flow chart is broken out in levels resembling swim lanes in a pool) to develop the WBS (See Figure 8). Using a diagram ensures that:

- All similar requirements are incorporated in the same part of the PWS
- Redundancies and/or contradictions in the final PWS are minimized
- All intended contract requirements are covered in the specification

**Use of flow charts and swim lane diagrams**

**A typical diagram has three levels:**

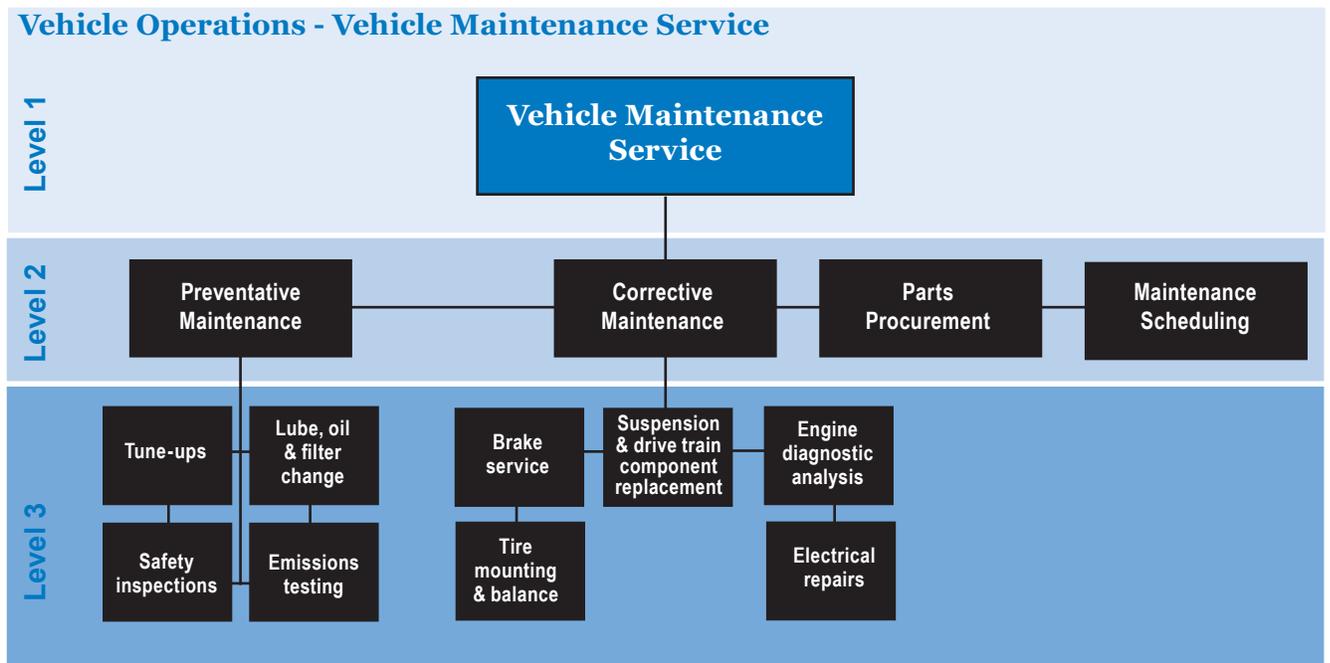
- Level one - Addresses a summary level of effort
- Level two - Addresses primary tasks, results, and outcomes
- Level three - Addresses sub-tasks

Figure 8 illustrates a work analysis for the Vehicle Maintenance example. A three-level diagram is sufficient for most analyses. However, additional levels may be added as necessary if a service is fairly complex with many inputs and outputs.

Each task and subtask should be clearly identified and, along with workload, facility, material, equipment and personnel analysis, an initial budget or direct cost for each element should be developed.

**Figure 8**

*Work Analysis Diagram*



### 2.3.3 Conduct a performance analysis

#### Purpose of the performance analysis

The performance analysis is a process that identifies how performance objectives should be measured and, therefore, what performance standards (e.g. timeliness or quality levels) are reasonable and appropriate for a particular performance objective. It also identifies necessary performance indicators and the standards by which contract performance will be measured. At a minimum, performance indicators and standards must be results-oriented.

#### Performance indicators defined

A performance indicator is an essential characteristic of acceptable performance and a feature of a task, result, or outcome that can be measured quantitatively (preferable) or qualitatively. In many cases, indicators that may be used to evaluate performance may already be in use by the agency. Care must be taken that indicators are realistic and can be measured numerically and repeatably. Examples of performance indicators from our hypothetical vehicle maintenance example include:

- Vehicle availability for vehicle operations (percentage of vehicles available to clients each Monday @ 8:00am)
- Vehicle longevity (expected over actual vehicle life span measured and reported quarterly)
- Vehicle breakdowns per hour of operation (number of breakdowns experienced by customers)
- Maintenance costs per hour of operation (how much maintenance costs customers).

#### Performance standards defined

A standard is something against which another thing can be measured. While the highest standards may often be desired by the agency, compromise is also often necessary in the interest of cost and efficiency. A standard should also be reasonable and measurable. Each standard that is selected should be necessary, but it should not be unduly burdensome, otherwise unnecessarily high service costs may result.

Standards may be published or they may consist of well-recognized industry or government standards. They can be found in agency operating procedures, policy manuals, by examination of records of past performance, or developed anew as part of the business requirements analysis. Sometimes it may be necessary to develop performance standards from scratch. If the standards are stated in terms of averages or medians, consideration should be given to whether there should also be a minimum standard for acceptable performance.

Examples of performance standards related to the performance indicators identified above include:

- Average (12 month rolling) of at least 82.5% vehicle availability (Source:National Association of Fleet Administrators(NAFA))
- Mean longevity of fleet versus NAFA standard 95.6% or better (average life of vehicles compared to the standard)
- One vehicle breakdown or less per 3000 hours of operation
- \$1.00 or less of direct maintenance costs per 1000 hours of operation.

### Role of performance indicators and standards

A performance indicator and its associated standard allow contract managers to determine if a process is producing a quality result. Every task of a service should have at least one performance indicator and a reasonable standard of performance associated with it. When the standard is met, the service has been performed satisfactorily.

Properly developed performance indicators and standards should easily address the following performance objectives or expectations:

- **What:** Scheduled and unscheduled vehicle maintenance of the of Department of XYZ Vehicle Operations fleet
- **How Well:** Chosen service provider must, within one year, achieve the following results:
  - Average (12 month rolling) of at least 82.5% vehicle availability (Source: National Association of Fleet Administrators(NAFA))
  - Mean longevity of fleet versus NAFA standard 95.6% or better (average life of vehicles compared to the standard)
  - One vehicle breakdown or less per 3000 hours of operation
  - \$1.00 or less of direct maintenance costs per 1000 hours of operation
- **How Many:** Department of XYZ's fleet of 1,350 cars and light trucks; and
- **When:** At the discretion of the chosen service provider, provided that cost and quality performance standards above are met.

### Develop acceptable quality levels (AQLs)

Once the indicators and standards have been identified, each task of a service, along with its associated indicator and standard, must be tied to a description of acceptable quality. This description of acceptable quality is referred to as the Acceptable Quality Level (AQL). The AQL is the degree to which the agency will allow the service provider's performance to vary from a standard.

For each performance standard identified during the performance analysis there should be an associated AQL. AQLs should be reviewed and agreed to by all parties in a solicitation. Developing an AQL is basically a two-step process.

1. The first step involves determining the extent to which performance variations, which can and will occur, will be permitted by the agency during contract performance
2. The second step involves setting procedures if the limit on the acceptable level of performance is exceeded or not met by the service provider.
  - a. Regular operational review and process for corrective action
  - b. Incentive or reward for better than expected performance
  - c. Consequences for non-performance
  - d. Flexibility for unforeseen events

### Performance measures, standards, and AQL

The development of performance indicators, standards, and AQLs, can be organized using a format such as the one presented in *Figure 9* for a portion of an analysis for the Vehicle Maintenance service example.

<b>Vehicle Maintenance Service performance measures, standards, and AQL</b>		
<b>Performance Measure</b>	<b>Performance Standard</b>	<b>Acceptable Quality Level</b>
Vehicle availability	Average (12 month rolling) of at least 82.5 % vehicle availability (NAFA Standard) percentage of vehicles available to clients @ 8:00am	82.5% one year after award is minimum acceptable level of performance
Fleet longevity	Mean longevity of fleet versus NAFA standard 95.6% or better (Expected over actual vehicle lifespan reported quarterly)	+/- 2%
Vehicle breakdowns	1 vehicle breakdown or less per 3000 hours of operation Number of breakdowns experienced by customers	+/- 300 hours
Cost	\$1.00 or less of direct maintenance cost per 1000 hours of operation Maintenance costs per hours of operation	+/- 120 hours

**Figure 9**

*Performance Measures, Standards, and AQL*

**Performance incentives**

Determining appropriate contract performance incentives is the final element of the performance analysis. Incentives are not unique to performance-based contracting. Contracts, by their very nature, motivate successful performance, as service providers that do not perform satisfactorily generally do not get paid or are replaced. Increasingly contracts are incorporating specified incentives designed to encourage superior performance.

**Considerations for incentives:**

- They should conform to laws, rules, and policy
- They should be enforceable
- The agency has to have the willingness to enforce them
- They should be spelled out in the solicitation and agreed to as a condition for award
- They should be earned only when all service delivery requirements are being met
- They require continuous monitoring to ensure early warning of problems, and real-time root cause corrective action.

## Types of Incentives

In general, positive and negative incentives may be applied to cost control, performance, schedule and/or quality elements of a contract.

- **Cost-based incentives** - are designed to compare the service provider's performance against cost performance measures and standards. For cost incentives to work, a solid, detailed internal cost estimate is required (see Chapter 3).
- **Performance incentives** - are used to focus the attention of a service provider on those aspects of the PWS that are most important to accomplishing the contracted service. Performance incentives can motivate the service provider to exceed expectations or protect the agency if performance levels are not met.
- **Delivery or schedule incentives** - focus on getting a service provider to exceed delivery or service level expectations and assign a penalty for not meeting the agreed upon requirements.
- **Quality incentives** - are designed to reward a service provider that exceeds quality requirements. Conversely, it also outlines the responsibilities of a service provider that does not meet quality expectations.

## Incentive example

The level of incentive should relate directly to the level of value of the outcome. Therefore, determining the proper choice of cost, performance, schedule and/or management incentives is based on the value it provides to the agency. The incentive(s) can be monetary or non-monetary. However, they must represent a balance between its value versus its cost to the agency and the service provider. Positive incentives should reward quality performance, while negative incentives should reflect the cost to the agency of non-performance. Consider Figure 10:

**Figure 10**

*Hypothetical  
Incentive  
Example*

**Performance measure:** Fleet longevity

**Performance standard:** Mean longevity of fleet versus NAFA standard 95.6% or better. Expected over actual vehicle life span measured and reported quarterly

**AQL:** +/- 2%

**Value of incentive:** By increasing fleet longevity above the AQL of 97.6% the state saves \$100K in acquisition related expenses (the state does not have to buy new cars as often).

**Incentive:** The awardee will get 10% of any savings realized by the state for exceeding the AQL.

## Incentives and the Employee Business Unit

The outcome sought by the agency when it decides to use performance-based contracting should be the same whether the award is made to an EBU or a private service provider. That outcome is successful performance of the contract. For the agency to use incentives in its contract with an EBU it must:

1. Clearly spell out the terms and conditions associated with the incentive beforehand
2. Conform to one or more rules and laws governing the use of incentives for state employees

3. Not conflict with the terms of any applicable collective bargaining agreement unless such conflict is resolved with the exclusive bargaining representative(s)

As described in the previous sections, incentives can be either **positive** or **negative**.

### Positive EBU Incentives

An agency and the EBU may want the performance agreement to define what will happen to any cost savings that result from completing performance requirements for less cost or better efficiency than what was anticipated in the agreement. If the agency wishes to provide financial incentives for such cost savings, it must do so through the use of existing state policies. The specific policies that may be used in any particular circumstance will depend upon the source or sources of funds used by the agency to finance the EBU's work. For example, some dedicated fund sources may not allow monies to be used for incentives.

The existing state policies, and locations of further information about them, are:

- Savings Incentive Program  
(see <http://www.ofm.wa.gov/budget/info/savings2001/contents.htm>)
- Teamwork Incentive Program  
(see <http://www.secstate.wa.gov/productivityboard/>)

**Note: EBU Incentives Confirmation - It is anticipated that WAC 357-43, Employee Business Units will be updated by DOP in 2005 to define an abbreviated performance management confirmation process agencies may complete so that they can provide additional incentives in agreements. Contact DOP for more details.**

All provisions of these policies, including restrictions or exceptions, apply to their use in competitive contracting. For example, certain funds are excluded from use under the Savings Incentive Program, and these restrictions must be adhered to in any competitive contracting situation.

Agencies have flexibility in how they contemplate and use these incentive tools. The details about how the policies may be applied will depend upon the particular competitive contracting situation and the wishes of the agency's management within that situation.

Agencies should consider whether they want to treat all sources of savings equally for the purposes of incentives. For example, savings may be due to more efficient processes developed by the EBU, or to a "windfall" drop in price of a commodity used by the EBUs work. If these are not to be treated the same for purposes of incentives, it should be specified in the performance agreement.

### Negative EBU Incentives

Negative incentives may include, but are not limited to:

- Loss or reduction in funding
- Layoff
- Termination of the contract and re-solicitation

For an EBU, the cost of their proposal represents a "**not-to-exceed**" level. Costs can and will fluctuate, but it is the responsibility of the EBU to account for and manage all its costs as part of its agreement with the agency. In some cases, costs may go up (i.e. fuel, materials, etc.) as a result of market conditions outside of the control of the EBU. In those cases, as would be the case with a private service provider, an amendment to the

contract may be warranted to pass through the increase or, if the increase cannot be supported by the agency, the EBU may need to take other action such as a layoff.

### **2.3.4 Prepare the verification plan**

#### **Objectives of a verification plan**

This part of the business requirements analysis process focuses on the drafting methods that are used to evaluate whether the agency's standards have been met for each critical task identified. The verification plan answers three questions:

1. What outcomes or results from the tasks identified in the work analysis will be monitored?
2. What assessment methods or measurements are both appropriate and repeatable to conduct the monitoring?
3. How and when will monitoring actually be conducted and reviewed?

The verification plan will be the basis for the QAP which will be integrated with the PWS and included in the solicitation.

#### **Verification methods**

There are five main methods of verification employed in performance-based contracts:

1. **Random sampling** - a statistically-based method that assumes receipt of acceptable performance if a given percentage or number of scheduled assessments is found to be acceptable.
2. **Audits** - On site evaluation of a service provider's systems, process, and methods.
3. **One-hundred percent inspection** - is typically used only if stringent performance requirements are necessary, such as when health and safety considerations are critical. Often this method is too expensive or impractical.
4. **Periodic sampling** - is similar to random sampling, but is planned at specific intervals or dates. It may be appropriate for tasks that occur infrequently. For example, in a facility maintenance contract, periodic sampling may be used to provide surveillance for interior or exterior painting, which may occur only once or twice a year or only every few years.
5. **Customer feedback** - utilizes direct feedback from the actual users of the service. It should be used primarily to supplement other forms of evaluation and assessment, and it is especially useful for those areas that do not lend themselves to the more typical forms of assessment.

#### **Determining the appropriate method**

Determining the most appropriate assessment method to use should include the following considerations:

- What is the most cost effective and efficient way to assess results versus a standard?
- How critical is a particular task?
- How long or frequent should the assessment period be?
- What staffing and resources are available to conduct the performance assessments? Are there enough personnel to carry out the degree of evaluation being considered?
- Do the proposed evaluation methods represent a common commercial practice for the particular service being contracted?

- What industry standard is the service provider already required to comply to (i.e. ISO 9000:2001, Food and Drug Administration Quality System Requirements, State audits, etc)?
- What are the relative risks and implications of a measurement dispute with the service provider?

**2.3.5 Finalizing the business requirements analysis**

**A summary of the business requirements analysis is prepared**

The tasks (or results/outcomes), performance objectives, performance standards, and AQLs that have been developed through the business requirements analysis should be summarized for review and approval by the agency director. By approving the summary, the agency director allows the team to proceed with the development of the PWS and QAP.

Prior to solicitation, this summary may be used by the agency to facilitate Concurrent or Value Engineering efforts described in section 2.1.1. The intent is to develop as competitive a PWS as possible. Agencies may involve potentially displaced employees or potential bidders in providing technical assistance in developing a PWS provided that the assistance does not create an unfair advantage (see WAC 236-51-302). Additionally, development activities on a PWS do not constitute a decision by the agency director to competitively contract a service. The decision and resulting communication should be a separate event with the requirements provided in rule (see WAC 236-51-100 and WAC 236-51-110. An example (Level 2: preventative maintenance; vehicle availability) is provided in *Figure 11*.

**Figure 11**  
*Business Requirements Summary*

<b>Business Requirements Summary</b>					
<b>Task, result or outcome</b>	<b>Performance Measure</b>	<b>Performance Standard</b>	<b>AQL Method</b>	<b>Verification</b>	<b>Incentive</b>
<b>Level 1</b> Vehicle maintenance service	Vehicle availability	Average (12 mth rolling) 82.5% vehicle availability (NAFA Standard). % of vehicles available to clients each Monday @ 8 a.m.	82.5% minimal acceptable level	Weekly vehicle availability report: 100% inspection	One continuous year of availability over 90% the agency will grant a bonus payment of 3% of annual fee. One year of non-performance (below 82.5%) shall allow the agency to deduct 5% from annual fee. 18 months of non-performance will cause the agency to void contract and re-bid.
<b>Level 2</b> Preventative maintenance	Vehicle availability	Perform level 3 preventative maintenance within NAFA standard time allotted	See below	Job reporting database: 100% Inspection	
<b>Level 3</b> Tune-ups	Time standard	NAFA Standard 1 hr.	+/- .1 hr.	Job reporting database: 100% inspection	
Lube, oil & filter	Time standard	NAFA Standard .5 hr.	+/- .1 hr.	Job reporting database: 100% inspection	
Safety inspections	Time standard	NAFA Standard .5 hr.	+/- .1 hr.	Job reporting database: 100% inspection	
Emission testing	Time standard	NAFA Standard .25 hr.	+/- .1 hr.	Job reporting database: 100% inspection	

*Chapter 2, Section 4***Performance Work Statements (PWS)****2.4.1 Overview**

Once completed, the PWS along with the QAP become part of the agency's solicitation. WAC 236-51-305 states that the following must be included in a solicitation. The bolded items represent what is covered by the creation of the PWS and QAP. The balance of the items listed will be covered later in this manual (chapter 6). While it does not appear to be a lot, the bolded items represent the bulk of the solicitation development effort:

1. Complete bidder instructions
2. Submittal requirements
3. **Performance work statement**
4. Cost and non-cost evaluation criteria
5. Name and address of the person designated to receive complaints and appeals
6. Agency's plan for publication and notice of award/intent to award
7. Contract requirements, which shall include, but are not limited to:
  - a. **State standards as provided in WAC 236-51-210**
  - b. **Compliance and adherence to a quality assurance plan**
  - c. **Measurable standards for the performance of the contract**
  - d. **Methods used to measure contract performance, costs, service delivery quality, and other contract standards**
  - e. Terms and conditions
  - f. Provisions requiring an entity other than an EBU to consider employment of state employees who may be displaced by the contract
  - g. Cancellation provisions for improper or failed performance
  - h. Complaint process
  - i. Appeal process

**2.4.2 Writing the Performance Work Statement (PWS)****Key objectives**

The PWS is typically written at the same time as the QAP, since what is included in the PWS usually influences what is included in the QAP. Developing the QAP at the same time as the PWS will ensure that the tasks, outcomes, or results and procedures identified in the PWS are matched to a specific performance indicator.

The relationship between the PWS and QAP is mapped in the business requirements summary shown in *Figure 11*.

A key objective in writing the PWS is to express the desired outcomes in terms that are:

- Clear
- Simple
- Concise
- Results-oriented
- Measurable
- Enforceable

The PWS must state the contract requirements in a clear and unambiguous manner. Detailed procedures that dictate how the work should be accomplished should not be included. Instead, the PWS should be structured around the purpose of the work to be performed (i.e. what is to be accomplished) and identification of measurable outcomes or results. This is the essence of performance-based contracting.

### **2.4.3 Identifying state standards and information requirements**

#### **Identifying state standards**

WAC 236-51-210 states; “If an agency intends to require the use of state standards it shall identify them in the solicitation document. State standards may include, but are not limited to: Financial, accounting, audit, payroll, human resources, procurement, record retention, or other systems, methods, infrastructure, or practices. Agencies shall use technology standards established by the Washington State Department of Information Services, Information Services Board.”

This part of the performance work statement (PWS) preparation process requires agencies to identify and list in the solicitation document the required statewide policies, standards and procedures that the apparent successful bidder must comply with in its performance of the contract. If an agency intends to require the use of agency internal policies, standards or procedure, it shall identify and list them in the solicitation document.

Agencies and the apparent successful bidder, including EBUs, must comply with required statewide policies and standards. Once identified these state standards become part of the business requirements section of the PWS.

#### **Statewide policies and standards include, but are not limited to:**

- ISB policies and standards
- State Administrative and Accounting Manual;
- Material grades and specifications; and
- State accounting, payroll, and human resource management systems.

#### **Determining information requirements**

As work on a PWS is finalized, any information requirements needed by the agency should also be identified. Remember, information collection and reporting will add costs. Required information collection and reporting must be directly tied to the performance objectives of the contract, otherwise it just becomes an unnecessary added expense. Consider the information requirements, if any, for each stakeholder, outside auditors, grantors, and public records requestors, etc.

The PWS team should ask itself a number of key questions when deciding what information requirements to include in a contract:

- What information is really needed?
- Which tasks produce that information?
- What should the service provider research, investigate, observe and record?
- What analysis and/or synthesis of the data are required?
- What should the service provider report?
- What should be the submission timelines for reporting?
- What should be the format of the report?
- Who should the service provider report to?

All information requirements should be listed directly in the PWS, with each requirement cross-referenced to the appropriate requirement statement.

#### **2.4.4 Components of a Performance Work Statement (PWS)**

Although the elements of a PWS can vary depending on the objective, complexity, size and nature of the work to be performed, there are certain basic sections that should be included in a PWS. They are:

- Background
- Scope
- Tasks to be performed
- Deliverables
- Business requirements (including state standards as described in section 2.4.3 above)
- Performance verification
- Transition provision
- References
- Attachments

**Note:** *As with any solicitation documents, the agency is advised to develop and adhere to a method for managing changes and revisions so as to ensure compliance to WAC 236-51-310 and WAC 236-51-320.*

**Background** - This section of a PWS should provide a general description of the service being solicited and briefly discuss the overall objective of the competition. It should also discuss how the competition relates to previous, ongoing and future competitions, if any. If applicable, the discussion should also include any known difficulties or constraints. The discussion should provide sufficient information to enable a potential bidder to understand how the service fits into the broader agency operating environment.

**Scope** - The scope statement provides the basic boundary conditions for potential bidders. The focus of the “Scope” section is to present the overall picture in concise form. Broad, non-technical terms should be used and the actions to be performed by the service provider, as well as the results expected, should be summarized.

One approach is to state the overall scope of the service to be performed, followed by subparagraphs stating individual tasks and sub-tasks. Again, consider the vehicle maintenance example and *Figure 12*:

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**Figure 12** **Vehicle Maintenance Service:** The work proposed under this solicitation involves providing preventative maintenance and repair for Department of XYZ's Vehicle Operations. These services are presently provided for 1,350 vehicles assigned to the Department of XYZ Vehicle Operations and are located in the city of Olympia. This service provides equipment, repair parts, materials, supplies and tools to maintain Department of XYZ's owned as well as agency leased vehicles.

*Service Scope Statement*

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**Tasks to be performed** - In this section the agency goes back to the work analysis (see 2.3.2). Each relevant level task is identified and described. Consider *Figure 13*:

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**Figure 13** **Level 3:** Tune-ups - Each vehicle is to receive an annual maintenance adjustment of the following systems as recommended by the vehicles manufacturer:

*Service Task Requirements*

- Ignition** - Points, plugs, and condenser replacement and setting of all gaps.
- Fuel** - EFI Vehicles: Filter replacement and injector clean.  
Carbureted Vehicles: Filter replacement, Choke & idle adjustment.

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**Deliverables** - This section expands on each task and specifies the outcome or tangible end result that is expected from each task, result, or outcome identified previously. The result can be a tangible such as a report or an intangible real result such as a decrease in equipment failure rates at the end of some time period. For *Figure 14*:

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**Figure 14** **Level 2:** Preventative maintenance - Quarterly the EBU or service provider will supply to the agency a report of actual times spent for each preventative maintenance level 3 tasks. In addition, the service provider will supply preventative maintenance cost records to the agency. The purpose of this data in each case will be to determine if the service provider has met the performance requirements specified in its contract with the agency.

*Service Outcome or Deliverable*

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**Business requirements** - The business requirements section is the heart of the PWS. It draws the majority of its information from the business requirements summary (see 2.3.5 for an example). This section describes to the service provider what is needed as clearly, precisely, and completely as possible. In drafting this section the following general principles apply:

- **Performance requirements** - for each listed task and expressed as an outcome or result. This allows the service provider to devise and propose various approaches to satisfy the requirements

- **Performance standards** - specifications, industry or government standards, and/or AQLs relative to the performance requirements above
- **State-furnished** - data, material, tools or facilities in performing specific tasks, these items should be identified and the time frame for providing them established
- **State standards** - See section 2.4.3

Sometimes established performance requirements may not be available. For example, the agency may be in the process of revising standards that may affect the frequency for maintaining items; or data management system may not be able to provide required data until new reports are programmed. In such cases, if the required data is critical to defining a task requirement, the PWS either should not be completed until the required data is available, or an estimate should be provided with a condition that the estimate represents an assumption or estimate. However, it should be recognized that assumptions and estimates might have a significant impact on pricing and scheduling.

**Performance verification** - In this part, the agency describes to potential bidders what progress reporting, operational reviews, escalation paths, and meetings are required by the agency in monitoring their performance and results.

**Transition provision** - An agency should carefully consider what would be required to transition from one service provider to another in the event of cancellation or re-solicitation and award. What an agency may include in the solicitation performance work statement is language that outlines these expectations to bidders. Any transition requirement/provision should specify clearly what is expected of all parties and what happens if those expectations are not met. Agencies should employ the collective contracting experience of DIS, OSP, and OFM, as well as their own agency counsel, to assist in this effort. For most solicitations though, the standard language that exists within the state's different terms and conditions templates are sufficient. Regardless of the approach, the decision should be made in the context of the risks being faced and the relative cost to mitigate those risks. The use of bonuses, performance bonds, and withholding of payments to compel performance from the service provider should be used only when weighed against this context.

**References** - Here the agency provides any links or sources required by potential bidders to perform the service.

**Attachments** - This section is used for the inclusion of special information that does not easily fit into the other sections of the PWS. It typically contains items such as workload data, listings of state-furnished equipment, discussion of facilities, and any other relevant background or supplemental data necessary to clarify the business requirements.

### **PWS review considerations**

Ultimately the agency's director is responsible for the content of any PWS and the resulting solicitation. That is why at the start of any competitive contracting project, the agency competitive contracting team should identify how and when reviews will be conducted and who will make decisions. The following should be considered in any PWS document review:

- Will service providers be able to prepare a sound technical proposal from the contents of the PWS?
- Does the PWS create undue constraint on the ability of some potential bidders from submitting a competitive proposal?
- Are tasks, results, or outcomes clearly stated so that an awardee of a contract will know what to do, when it is required, and whether it is being done correctly?

- Are the tasks, results, and outcomes realistic and performable?
- Will a service provider be able to prepare an accurate cost proposal?
- Are performance standards clearly identified in such a way that all parties can agree that tasks, results, and outcomes are being performed as specified?
- When other documents are referenced, are they available, properly described, and cited?
- Have the appropriate agency and industry standards been researched and referenced?
- Have any data requirements been separately specified in a data requirements section?
- Have extraneous data requirements been eliminated?

### Chapter 2, Section 5

## Quality Assurance Plan (QAP)

### 2.5.1 General objectives of the QAP

A Quality Assurance Plan (QAP) describes how the state will evaluate and assess a service provider's performance. It is intended to be a "dynamic" document that should be revised or modified as circumstances warrant. The general objectives of performance assessment include the following:

- Detail how and when the agency will survey, test, sample evaluate and document a service provider's performance in accordance with the PWS.
- Focus on the quality, timeliness, etc. of the tasks to be delivered by the service provider, and not on the steps required or procedures used to provide the service.
- Identify and prioritize performance measures, standards, and indicators identified in the performance analysis (see section 2.3.3).

### 2.5.2 Components of a Quality Assurance Plan (QAP)

#### Introduction section

This should be a brief statement that identifies the overall contract to be evaluated, the overall purpose of the QAP document, how the QAP is organized, and how the QAP should be used in assessing a service provider's performance.

#### Statement of objective section

This section should describe the general goals of the QAP. For example see *Figure 15*:

**Figure 15**  
*QAP Statement  
of Objective*

**QAP statement of objective:** The objective of this plan is to ensure that the overall quality of the vehicle maintenance service is consistent with the performance requirements outlined in the business requirements section of the PWS. The following elements are deemed to be important when assessing performance under this plan:

1. **Results** - Maintenance performed on vehicles has to be effective and cost efficient. This result will need to be demonstrated by the service provider

and a review will be conducted by the agency to evaluate performance to results.

2. **Standards of performance** - The standards listed in the performance requirements and outlined in the business requirements section of the PWS represent a starting point. They will be reviewed quarterly to evaluate their continued applicability or to determine whether new or better standards are required.
  3. **Service provider compliance** - As a condition for award, compliance to this plan and the elements of the PWS are mandatory. As part of the quarterly review, the agency and the service provider will review results and determine agreed upon action plans to address non-conformance to the performance requirements. Failure to perform to these requirements is cause for cancellation.
  4. **Root-cause analysis and corrective action** - As a condition for award, a service provider agrees to participate in analyzing and correcting non-conformances.
  5. **Incentives** - The performance requirements in the business requirements section of the PWS outlines specific incentives created to motivate a service provider to exceed the requirements specified.
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### **Roles and Responsibilities section**

This section should identify the key personnel involved and their roles in administering the contract. After award, the agency may need to modify this section based on who is awarded the contract and once specific escalation paths are known.

### **Verification methods section**

Here the agency describes how adherence to the performance requirements will be verified (see 2.3.4).

### **Corrective action**

The method and response expectations the agency has should be identified here. A number of agencies employ corrective action procedures and methods today; these can be applied here also. Customer complaint procedures should also be identified here.

### **Provider quality control plan**

The agency can add a requirement that a service provider develop and submit a quality control plan as part of their solicitation. This requirement should allow each bidder to develop their own plan in response to the requirements of the PWS and the QAP.